

INTERFAITH SHELTER NETWORK
OF SAN DIEGO

FINANCIAL REPORT

DECEMBER 31, 2019 AND 2018

INTERFAITH SHELTER NETWORK
OF SAN DIEGO

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Interfaith Shelter Network of San Diego
San Diego, CA

We have audited the accompanying financial statements of Interfaith Shelter Network of San Diego (a non-profit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interfaith Shelter Network of San Diego as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

San Diego, California

JGD & Associates, LLP

June 23, 2020

INTERFAITH SHELTER NETWORK OF SAN DIEGO
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2019 and 2018

ASSETS

	2019	2018
Assets		
Cash	\$ 32,557	\$ 107,533
Investments (Note 1, 8)	99,672	44,819
Grants receivable, net	69,549	53,797
Land	382,857	382,857
Apartment building	581,570	581,570
Improvements	456,226	456,226
Less: accumulated depreciation	(661,860)	(624,122)
Total assets	\$ 960,571	\$ 1,002,680

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 39,375	\$ 37,847
Line of credit - related party (Note 2)	-	7,000
Tenant deposits	6,635	5,112
Accrued interest (Note 3)	72,393	69,342
Mortgage payable (Note 3)	100,013	100,013
Total liabilities	218,416	219,314
Net assets		
Without donor restrictions	710,731	751,670
With donor restrictions (Note 6)	31,424	31,696
Total net assets	742,155	783,366
Total liabilities and net assets	\$ 960,571	\$ 1,002,680

The accompanying notes are an integral part of these financial statements.

INTERFAITH SHELTER NETWORK OF SAN DIEGO
 STATEMENTS OF ACTIVITIES
 December 31, 2019 and 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
Revenue and support				
Government grants	\$ 233,952	\$ -	\$ 233,952	\$ 288,054
Donations	249,235	80,975	330,210	370,638
Donated stock (Note 1)	46,445	-	46,445	46,387
In-kind supplies and food	112,254	-	112,254	80,798
Special events	44,501	-	44,501	42,245
Rents and laundry	51,322	-	51,322	39,997
Interest and dividend income	2,677	-	2,677	1
Realized gain on investments	6,917	-	6,917	-
Unrealized gain (loss) investments	236	-	236	(1,568)
Released from restrictions	81,247	(81,247)	-	-
	<u>828,786</u>	<u>(272)</u>	<u>828,514</u>	<u>866,552</u>
Total revenue and support				
Expenses				
Program services				
El Nido	352,158	-	352,158	333,075
Housing Assistance	110,576	-	110,576	69,203
Rotational Shelter	352,614	-	352,614	294,818
	<u>815,348</u>	<u>-</u>	<u>815,348</u>	<u>697,096</u>
Total program services				
Supporting activities				
Management and general	44,411	-	44,411	35,919
Fundraising	9,966	-	9,966	12,358
	<u>54,377</u>	<u>-</u>	<u>54,377</u>	<u>48,277</u>
Total general and fundraising				
	<u>869,725</u>	<u>-</u>	<u>869,725</u>	<u>745,373</u>
Total expenses				
Change in net assets	(40,939)	(272)	(41,211)	121,179
Net assets, beginning of year	<u>751,670</u>	<u>31,696</u>	<u>783,366</u>	<u>662,187</u>
Net assets, end of year	<u>\$ 710,731</u>	<u>\$ 31,424</u>	<u>\$ 742,155</u>	<u>\$ 783,366</u>

The accompanying notes are an integral part of these financial statements.

INTERFAITH SHELTER NETWORK OF SAN DIEGO
STATEMENTS OF FUNCTIONAL EXPENSES
December 31, 2019 and 2018

	Program Services				Supporting Activities		2019 Total	2018 Total
	El Nido	Housing Assistance	Rotational Shelters	Total	Management & General	Fund- Raising		
Personnel								
Salaries	\$ 137,077	\$ 26,120	\$ 149,576	\$ 312,773	\$ -	\$ -	\$ 312,773	\$ 316,224
Employee benefits	19,747	-	4,301	24,048	29,508	-	53,556	49,908
Payroll taxes	16,374	-	10,758	27,132	-	-	27,132	26,674
Subtotal Personnel	173,198	26,120	164,635	363,953	29,508	-	393,461	392,806
Administration								
Depreciation	37,738	-	-	37,738	-	-	37,738	37,738
Equipment and furnishings	-	-	235	235	1,896	-	2,131	1,551
Insurance	13,808	-	6,280	20,088	-	-	20,088	14,865
Office and miscellaneous	3,258	-	1,182	4,440	3,008	-	7,448	8,879
Postage	1,693	-	510	2,203	-	-	2,203	1,862
Printing	135	65	4,379	4,579	-	-	4,579	5,387
Professional Fees	4,779	-	8,194	12,973	7,265	-	20,238	18,994
Rent	10,800	-	23,714	34,514	-	-	34,514	30,707
Staff training	2,283	-	1,410	3,693	-	-	3,693	1,859
Programs								
Case management	-	-	16,548	16,548	-	-	16,548	5,290
Childcare	8,770	-	-	8,770	-	-	8,770	1,572
Client transportation	697	-	4,015	4,712	-	-	4,712	7,498
Emergency medical	224	-	-	224	-	-	224	315
Interest expense	2,335	-	-	2,335	-	-	2,335	3,042
In-kind supplies and food	-	-	112,254	112,254	-	-	112,254	80,798
Programs - other	2,539	78,336	-	80,875	-	-	80,875	32,950
Recreation	11,066	-	-	11,066	-	-	11,066	8,612
Repairs and maintenance	28,289	-	-	28,289	2,618	-	30,907	12,995
Supplies	1,328	-	3,755	5,083	-	-	5,083	12,218
Telephone and internet	2,209	-	4,139	6,348	116	-	6,464	5,944
Travel and transportation	1,367	6,055	1,364	8,786	-	-	8,786	7,270
Utilities	45,642	-	-	45,642	-	-	45,642	39,863
Fundraising								
Special events	-	-	-	-	-	9,966	9,966	12,358
Total 2019 Functional Expenses	<u>\$ 352,158</u>	<u>\$ 110,576</u>	<u>\$ 352,614</u>	<u>\$ 815,348</u>	<u>\$ 44,411</u>	<u>\$ 9,966</u>	<u>\$ 869,725</u>	<u>\$ -</u>
Total 2018 Functional Expenses	<u>\$ 333,075</u>	<u>\$ 69,203</u>	<u>\$ 294,818</u>	<u>\$ 697,096</u>	<u>\$ 35,919</u>	<u>\$ 12,358</u>	<u>\$ -</u>	<u>\$ 745,373</u>

The accompanying notes are an integral part of these financial statements.

INTERFAITH SHELTER NETWORK OF SAN DIEGO
STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (41,211)	\$ 121,179
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	37,738	37,738
Unrealized/realized gain (loss) on investments	(5,731)	1,568
Interest and dividends	(2,677)	-
Changes in operating assets and liabilities:		
Grants receivable, net	(15,752)	(31,457)
Accounts payable and accrued expenses	1,528	(7,725)
Tenant deposits	1,523	1,193
Accrued interest	3,051.00	3,042
	(21,531)	125,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment stock received	(46,445)	(46,387)
	(46,445)	(46,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit - related party	-	50,000
Payments on line of credit - related party	(7,000)	(43,000)
	(7,000)	7,000
Net change in cash	(74,976)	86,151
Cash, beginning of year	107,533	21,382
Cash, end of year	\$ 32,557	\$ 107,533

The accompanying notes are an integral part of these financial statements.

Interfaith Shelter Network of San Diego
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Nature of business : The Interfaith Shelter Network of San Diego (the Organization) is a non-profit, public benefit corporation, incorporated on August 1, 2010, (formerly Ecumenical Council of San Diego County, incorporated April 24, 1970) under the laws of the State of California to work collaboratively, through its Rotational Shelter Program with local human services agencies, local governments and local congregations to provide winter shelters and other services and resources to homeless individuals and families at congregational shelter sites throughout the San Diego region. In addition, the Organization's El Nido Transitional Living Program provides housing, case management, education, counseling, transportation, childcare and other resources and services to homeless battered women with children at an eleven-unit apartment complex owned by the Organization. As an adjunct to these programs, in 2014 the Organization was contracted to provide a Housing Assistance service that allocated move in and rental financial assistance for program participants.
- Financial Statement Presentation : In accordance with ASU No. 2016-14, the Organization reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.
- Net assets without donor restrictions are available use at the discretion of the Board of Trustees (the board) and/or management for general purposes. From the time to time the Board designates a portion of these net assets for specific purposes which makes them available for use at management's discretion.
 - Net assets with donor restrictions consists of assets whose use is limited by donor imposed, time and/or purpose restrictions. The Organization had \$31,424 and \$30,696 of net assets with donor restrictions at December 31, 2019 and 2018.
- Recent accounting pronouncement : On January 1, 2019, the Organization adopted Accounting Standards ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), (ASC 606") applying the modified retrospective method. The core principle of ASC 606 is that revenue should be recorded in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for goods or services promised to customers. Under ASC 606, the Organization follows a five-step model: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price for the contract; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent accounting pronouncement (Continued) : The Organization adopted this standard effective as of January 1, 2019 and utilized the cumulative effect transition method of adoption. The adoption of this guidance did not have a material impact on the Organization's financial position or results of operations.

Revenue Recognition : In accordance with ASC 606, contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), with donor restrictions are reclassified to without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Liquidity : Interfaith Shelter Network has \$201,778 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$32,557, grants receivable of \$69,549 and investments of \$99,672. \$31,424 of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures and contributions receivable are expected to be collected within the year.

Management has taken efforts to increase grant revenue and donations. Management has shifted towards relying more on contributions and private grants as their main sources of revenue opposed to government grants to mitigate the risk of experiencing a similar operational loss. It is anticipated this should result in increased reserves assuming donation and foundation grants remain at or near previous years' levels.

Additionally, management is pursuing a line of credit, which it could draw upon in the event of an unanticipated shortfall in cash.

Credit risk concentrations : The Organization maintains cash balances at two financial institutions located in San Diego, California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and 2018, the Organization had no cash deposits in excess of federally insured amounts.

Donated goods and services : Donated goods and services are recognized as contributions in accordance with FASB ASC 958-605 and subsections. Contributed services are recognized when the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization if not donated. During 2019 and 2018, the Organization received donated services valued at \$270,000 and \$225,850 that did not qualify for inclusion in the financial statements.

The Organization did receive donated supplies and food in the amounts of \$112,254 and \$80,798, for the years ended December 31, 2019 and 2018 that qualified to be shown on the financial statements as contribution revenues and corresponding expenses.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated goods and services : The Organization received stock donations from a donor with a fair value of \$46,445 and \$46,387 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the fair value amount of the investments was \$99,672 (See note 8).
(Continued)

Functional expenses : A functional classification of expenses has been used to analyze the cost of providing various services or other activities, including Program Services and Supporting Services. Certain costs are allocated within the various categories. Program Services include all expenses incurred by the Organization for activities directly related to the purposes for which the Organization exists. Supporting Services include all expenses incurred by the Organization for activities not directly related to the Organization's purpose; these are grouped into "Management and General" and "Fundraising" costs.

Grants receivable, net : Grants receivable consist of amounts incurred and billed for allowable costs under various grant agreements. Management estimates grants receivable to be fully collectable as of December 31, 2019 and 2018.

Income taxes : The Organization is a public benefit not-for-profit corporation organized under the laws of the State of California. The Organization is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and section 23701(d) of the California Revenue and Taxation Code.

The Organization follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the statement of activities, when applicable. Management has determined that the Organization has no uncertain tax positions at December 31, 2019 or 2018 and therefore no amounts have been accrued.

Income taxes (Continued) : The Organization's returns for fiscal years 2015 and later are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Property, equipment, and improvements : Acquisitions of property and equipment of \$1,000 or more are capitalized. Property and equipment are recorded at cost for purchased assets and at fair market value at the time of donation for donated assets. Maintenance and repair costs are charged to expense as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of the assets; 27.5 years for buildings and building improvements.

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was \$37,738 and \$37,738.

Subsequent events : Subsequent events were evaluated by management through June 23, 2020, which is the date the financial statements were available to be issued.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates : The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that effect reported amounts of assets, liabilities, revenues, expenses and disclosures as of the dates and for the periods presented. Accordingly, actual results could differ from those estimates.

NOTE 2--RELATED PARTY AND RELATED PARTY TRANSACTIONS

A member of the Board of Directors is a salesman for the printing company that prints the newsletter for the Organization. The total amount paid to the printing company was \$3,631 and \$6,080 for the years ended December 31, 2019 and 2018.

In 2018, the Organization entered into a line of credit agreement with a related party, with no interest, secured by a mortgage upon certain property owned by the Organization and was due on demand for \$50,000. The Organization had an outstanding balance of \$7,000 as of December 31, 2018 and the line of credit was paid back in full during the year ended December 31, 2019.

NOTE 3--MORTGAGES PAYABLE AND CONTINGENT LIABILITY

The Organization purchased and rehabilitated an apartment complex (the Project) on March 7, 1996. The Organization obtained a promissory note from the San Diego Housing Commission totaling \$964,427. The promissory note is comprised of a loan in the amount of \$100,013 and a grant in the amount of \$864,414.

The \$100,013 loan from the San Diego Housing Commission is required to be repaid in March 2026, along with accrued interest at 3% per year. The San Diego Housing Commission has the option to extend the due date of March 2026 for a period of up to 30 years. Annual payments up to the annual interest are required if residual receipts are earned in any year. Residual receipts are defined as all income remaining annually after the payment of all expenses of the Project, including mortgage payments, interest expenses, management expenses, utility fees, improvements, case management expenses, and other costs reasonably related to the operation of the Project. The Organization has not earned residual receipts in any month and no interest payments have been paid. Interest accrued as of December 31, 2019 and 2018 was \$72,393 and \$69,342, respectively.

The \$864,414 grant from the San Diego Housing Commission will be forgiven in 2026 unless the Organization is determined to be in breach or default of the promissory note. A breach or default is defined by the grant to occur, if the Interfaith Shelter Network of San Diego agrees to or actually sells, conveys, transfers, or disposes of the property described in the Deed of Trust securing the note or any part of it or any interest in it, or further encumbers the property, without first obtaining the written consent of the San Diego Housing Commission. If such a breach or default occurs, the Organization would be responsible for repaying the grant amount of \$864,414 plus interest accrued at 10% per year from the date of breach.

Since repayment is only required in the event of a breach, the loan has been recorded as a grant from the San Diego Housing Commission and no accrued interest is being recorded.

Accumulation of residual receipts is extremely unlikely, given the income level of the population served, and the Organization expects that default and/or breach on any provisions of the promissory note are also extremely unlikely.

NOTE 4--OPERATING LEASES

The Organization subleases certain office space from another organization (the sublessor) under a sublease agreement which matured in July 2017. The Organization extended the sublease agreement to July 31, 2020. The sublessor has a master lease agreement with a lessor for this office space.

Future minimum lease payments by year end under the office space sublease agreement are as follows:

Years ending December 31,	
2020	\$ <u>14,072</u>
Total	\$ <u><u>14,072</u></u>

Total rental expense for the Organization was \$34,514 and \$30,707 for the years ended December 31, 2019 and 2018.

NOTE 5--COMMITMENTS AND CONTINGENCIES: CONTRACTS

The Organization’s contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs on its financial statements.

NOTE 6—NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2019 and 2018 are expendable for the following purposes:

	<u>2019</u>	<u>2018</u>
El Nido Housing Program	\$ 23,092	\$ 25,476
Rotational Shelter Program	<u>8,332</u>	<u>6,220</u>
Total with donor restricted net assets	\$ <u><u>31,424</u></u>	\$ <u><u>31,696</u></u>

El Nido is a transitional living program for homeless mothers and their children, who have been victims of domestic violence.

The Rotational Shelter Program provides seasonal emergency shelter to homeless men, women and children in congregational facilities staffed by volunteers from more than 120 faith communities in San Diego.

NOTE 7--DEFINED CONTRIBUTION PLAN

In December 2014, the Organization established a qualified 401(k) profit sharing plan (Plan) for its employees. Employees must be at least twenty-one years of age and must be employed for twelve consecutive months in which at least 1,000 hours of service are completed in order to be eligible to participate in the plan. Employer contributions are discretionary and may range between 0% and 3% of each employee's base compensation. Participants become fully vested in employer discretionary contributions after two years of service. The Organization's Board of Directors annually determines if a contribution will be made based on the financial position of the Organization. For the years ended December 31, 2019 and 2018, the Organization made employer discretionary contributions to the Plan totaling \$5,443 and \$4,547, respectively.

NOTE 8--FAIR VALUE MEASUREMENTS

Pursuant to ASC 820, the Organization's marketable securities are classified as level 1 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources in active markets for identical instruments with reasonable levels of price transparency.

As of December 31, 2019 and 2018, the Organization did not have any assets or liabilities with observable inputs including quoted market prices for similar assets or liabilities in active or non-active markets (level 2) or any without observable market values that would require a high level of judgment to determine fair value (level 3).

The following table summarizes the Organization's financial assets measured at fair value on a recurring basis in accordance with ASC 820 as of December 31, 2019 and 2018 :

	<u>Assets at Fair Value as of December 31, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investment:				
Cash equivalents	38,725	-	-	38,725
Mutual funds	<u>60,947</u>	<u>\$ -</u>	<u>-</u>	<u>60,947</u>
Total	<u>\$ 99,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,672</u>

	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investment:				
Common stock	<u>\$ 44,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,819</u>
Total	<u>\$ 44,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,819</u>

Investment activity consisted of the following for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,677	\$ (1,568)
Unrealized gain (loss)	236	-
Realized gain	<u>6,917</u>	<u>-</u>
Total	<u>\$ 9,830</u>	<u>\$ (1,568)</u>

NOTE 9--SUBSEQUENT EVENTS

COVID-19

In recent days, the COVID-19 outbreak in the United States has caused business disruption that the Company expects will negatively impact its operating results. While the disruption is currently expected to be temporary, there are economic uncertainties and the financial impact and duration cannot be reasonably estimated at this time.

CARES Act

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief and Economic Security (CARES) Act.” The CARES Act appropriated funds for the SBA Payroll Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. The Organization has applied for and received funding in the amount of \$60,000 under this program.

CDBG Grant

On May 12, 2020, the Organization was awarded a one-time FY 2019-2020 Community Development Block Grant-Coronavirus (CDBG-CV) allocation for \$200,000. The Organization has received extended time to use the funds.